

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 NEA-10 ISO-00 FEA-01 ERDA-05 AID-05

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INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01

PRS-01 XMB-02 AS-01 /107 W
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R 171300Z NOV 75

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 4093

INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY ISLAMABAD

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY MUSCAT

AMCONSUL ROTTERDAM

AMEMBASSY TEHRAN

AMEMBASSY THE HAGUE

USMISSION OECD PARIS

USINT BAGHDAD

C O N F I D E N T I A L SECTION 1 OF 2 KUWAIT 4794

DEPT PASS EXIMBANK AND COMMERCE (MEPD, CAGNE) FOR INFO

E.O. 11652: GDS

TAGS: ENRG, EIND, EWWT KU

SUBJECT: KUWAIT NATIONAL PETROLEUM COMPANY

REF: (A) KUWAIT 4585 (NOTAL) (B) KUWAIT 3592 (NOTAL)

(C) KUWAIT 2971 (NOTAL)

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SUMMARY: KUWAIT NATIONAL PETROLEUM COMPANY PLANNING ON

SEVERAL IMPORTANT PROJECTS, TOTAL COST OF WHICH LIKELY TO BE OVER \$2 BILLION. IN ADDITION COMPANY BEGINNING TO CONSIDER EXPANDED MARKETING PROGRAM THAT WILL LIKELY LEAD TO DOWNSTREAM INVESTMENTS. COMPANY OFFICIALS BELIEVE THAT IT EVENTUALLY WILL BECOME PRIMARY FOCUS, UNDER MINISTER OF OIL, OF COMMERCIAL ASPECTS OF KUWAIT PETROLEUM ACTIVITIES. APPEARS THAT OVER NEXT FIVE YEARS OR SO KNPC WILL BECOME SIGNIFICANTLY LARGER, MORE COMPLEX AND MORE IMPORTANT OIL COMPANY. END SUMMARY.

1. EMBASSY HAS BEEN REPORTING ON CURRENT STEPS TO IMPROVE KUWAIT NATIONAL PETROLEUM COMPANY'S (KNPC) SHUAIBA REFINERY AS WELL AS PLANS FOR A MAJOR NEW REFINERY IN KUWAIT (REF-TELS). WE RECENTLY LEARNED OF OTHER MAJOR PROJECTS CURRENTLY BEING CONSIDERED SERIOUSLY WITHIN COMPANY AS WELL AS OTHER POSSIBLY SIGNIFICANT DEVELOPMENTS. MAJOR KNPC PROJECTS BEING CONSIDERED ARE SUMMARIZED AS FOLLOWS:

2. SMALL PROJECTS: KNPC HAS FOUR "SMALL" PROJECTS ABOUT WHICH WE HAVE REPORTED IN PAST. AS NOTED REF A DEBOTTLE-NECKING PROJECT HAS BEEN COMPLETED BY SNAM PROGETTI AND FOSTER-WHEELER BEGINNING WORK ON NEW HYDROCRACKER/H-OIL UNIT PROJECT. THESE PROJECTS EFFECTIVELY WILL EXPAND AND IMPROVE SHUAIBA REFINERY. IN ADDITION LUBE BLENDING PLANT PROJECT BEING DONE IN COOPERATION WITH SHELL AND EQUIPMENT FOR WHICH EXPECTED TO BE PURCHASED IN US. KNPC ALSO IS PLANNING ON BUILDING A NEW ASPHALT PLANT. TOTAL COST OF THESE PROJECTS IS SOME \$200 MILLION.

3. NEW REFINERY: EMBASSY HAS REPORTED SEVERAL TIMES ON NEW SHUAIBA-TYPE REFINERY, MOST RECENTLY IN REF A. IF KOC REFINERY IS REBUILT, COST ESTIMATED TO BE \$1.2 BILLION WHILE IF TOTALLY NEW REFINERY IS BUILT COST ESTIMATED TO BE \$1.4 BILLION. WE WERE TOLD ONE OPTION IN REBUILDING KOC REFINERY WOULD BE TO KEEP CURRENT DISTILLATION UNITS AS STRATEGIC RESERVE THEREBY ALLOWING AN ADDITIONAL NOMINAL 250,000 BPD REFINING (I.E. TOPPING) CAPACITY. ONE ASPECT THIS PROJECT WHICH SHOULD BE NOTED IS THAT KNPC PRESENTLY IN PROCESS OF SUBMITTING BASIC PROPOSAL WITH ALTERNATIVES AND RECOMMENDATIONS TO MINISTRY OF OIL, AND IN STUDYING CONFIDENTIAL

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KNPC PAPER GOK WILL ALMOST CERTAINLY BE REQUIRED TO MAKE BASIC POLICY DECISIONS REGARDING REFINING POLICY. ONE POSSIBILITY IS TO CONCENTRATE ON CRUDE SALES WHILE ANOTHER IS TO EXPAND REFINING CAPACITY TO, SAY, HALF CRUDE PRODUCTION LEVELS WHICH WOULD SUGGEST ADDING 500,000 BPD TO EXISTING REFINING CAPACITY. IT IS EXPECTED THAT MIDDLE ROAD WILL BE SELECTED, I.E., ONE NEW 250,000 BPD EXPORT REFINERY WHICH WOULD RESULT IN TOTAL CAPACITY OF ABOUT

500,000 BPD EXPORT REFINING CAPACITY, NOT COUNTING AMINOIL
REFINERY, PLUS 250,000 "STRATEGIC RESERVE".

4. NEW TANKERS: APPARENTLY KNPC HAS NOW DECIDED TO GO
FORWARD WITH PROJECT TO DEVELOP PRODUCT TANKER FLEET. AS
REPORTED PREVIOUSLY IT APPEARED COMPANY WOULD DROP PROJECT
ON ASSUMPTION IT WOULD BE HANDLED BY KUWAIT OIL TANKERS
COMPANY, WHICH REMAINS A POSSIBILITY. HOWEVER, KNPC HAS
RECENTLY HIRED A FORMER CUNARD OFFICIAL, AND HE WILL BE
RESPONSIBLE FOR DEVELOPING A FLEET OF AS MANY AS 13 PRODUCT
CARRIERS. COMPANY HAS BUDGETED OVER \$300 MILLION FOR PROJECT.

5. NEW LUBE REFINERY: IN ADDITION TO LUBE BLENDING PLANT
NOTED IN PARA 1, KNPC PLANNING ON COMPLETE NEW LUBE
REFINERY. FOSTER-WHEELER HAS DONE INITIAL STUDIES, AND MAY
BE SELECTED TO CONSTRUCT FACILITY. SHELL IS ALSO ASSISTING
WITH STUDIES. ESTIMATED COST OF THIS PROJECT IS \$150 MILLION.

6. BUNKERING FACILITIES: KNPC IS NOW RESPONSIBLE FOR PRO-
VIDING BUNKERING SERVICES TO SHIPS AND TANKERS CALLING AT
KUWAIT, AND PRESENTLY SOME 40,000 BPD OF BUNKERS ARE
SOLD. EXISTING FACILITIES ARE OLD AND INADEQUATE, AND
KNPC, THEREFORE, BEGINNING TO PLAN ON IMPROVING AND EX-
PANDING BUNKERING FACILITIES. SOME 10,000 BPD CAPACITY WILL
BE ADDED AT PORTS OF SHUWAIKH AND SHUAIBA AND AT ISLAND IN
KUWAIT HARBOR. ESTIMATED COST OF PROJECT IS \$50 MILLION.

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R 171300Z NOV 75

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C O N F I D E N T I A L SECTION 2 OF 2 KUWAIT 4794

DEPT PASS EXIMBANK AND COMMERCE (MEPD, CAGNE) FOR INFO

7. FINANCING PROJECTS: TOTAL VALUE OF PROJECTS IS ON ORDER OF \$2 BILLION, AND ALREADY IMPLEMENTATION OF PROJECTS HAS RESULTED IN MAJOR CONTRACTS FOR US FIRMS. WE BELIEVE KNPC MAY SEEK EXTERNAL FINANCING FOR ELEMENTS OF OVERALL PROGRAM. COMPANY HAS SUFFICIENT RESOURCES TO FINANCE SMALLER PROJECTS. WE UNDERSTAND, HOWEVER, THAT IT WILL
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FINANCE TANKER PURCHASES BY SEEKING EXTERNAL FUNDS. KNPC, WHICH RECENTLY COMPLETED PAYMENTS ON \$50 MILLION EXIMBANK CREDIT EXTENDED WHEN ORIGINAL SHUAIBA REFINERY WAS BUILT MAY SEEK EXIM CREDITS AGAIN. ITS PRIMARY SOURCE OF FUNDS WILL BE GOK. PRESENTLY, IT IS ASKING FOR DELAY IN REPAYING EXISTING LOAN, BUT GOK CAN BE EXPECTED TO FINANCE MAJOR SHARE OF NEW REFINERY PROJECT. CERTAINLY, GOK HAS SUFFICIENT RESOURCES TO DO SO, BUT SEVERAL OTHER LARGE PROJECTS WILL BE COMING UP AT SAME TIME. WE, THEREFORE, WOULD NOT BE SURPRISED IF KNPC WENT OUTSIDE KUWAIT FOR SOME FUNDS IN CONNECTION WITH PROJECTS DESCRIBED ABOVE.

8. MARKETING: IN ADDITION TO PROJECTS, KNPC IS LOOKING TOWARD EXPANDED MARKETING ACTIVITIES. COMPANY IN PROCESS BUYING AND/OR RENTING STORAGE FACILITIES IN ROTTERDAM AND PROBABLY EVENTUALLY IN US. THIS WILL ALLOW GREATER STABILITY IN SALES THROUGHOUT YEAR. FYI KNPC PLANNING AVERAGE PRODUCTION OF 170,000 BPD IN 1976; SHUAIBA REFINERY CAPACITY IS 186,000 BPD END FYI. IN ADDITION, COMPANY MAY BUY INTO LOCAL MARKETING SYSTEM IN ASIA. ONE POSSIBILITY WHICH HAS BEEN MENTIONED IN ESSO'S OPERATIONS IN PAKISTAN WHICH WE UNDERSTAND ESSO WISHES TO SELL. KNPC

HAS ALSO HAD VERY INFORMAL DISCUSSIONS WITH AT LEAST ONE US INDEPENDENT REGARDING POSSIBLE MARKETING ACTIVITY IN US. COMPANY ALREADY MAKING ORGANIZATIONAL CHANGES TO REFLECT NEW PROGRAMS. ARTHUR D LITTLE HAS BEEN PERFORMING MAJOR MANAGEMENT STUDY. KNPC WILL TRANSFER MOST OF ITS LONDON OPERATIONS TO KUWAIT, WHERE HEADQUARTERS OPERATIONS BECOMING MORE IMPORTANT.

9. KNPC IN KUWAIT: BEYOND ITS OWN PROGRAMS, KNPC MAY BECOME THE DOMINANT ELEMENT IN OVERALL ORGANIZATION OF KUWAITI PETROLEUM INDUSTRY, OTHER THAN MINISTRY OF OIL ITSELF. FOR ALL PRACTICAL PURPOSES IT HAS ALREADY TAKEN OVER REFINING AND PRODUCT MARKETING, AS WELL AS BUNKERING. KOC TRADITIONALLY WAS ONLY AN OPERATING COMPANY, AND NOW THAT GOK WILL OWN IT COMPLETELY IT PROBABLY WILL REMAIN AN OPERATING COMPANY WITH KNPC RESPONSIBLE FOR CRUDE OIL SALES. KNPC OFFICIALS CONTINUE TO BELIEVE THEY WILL BE ASKED TO RUN LARGE KUWAIT GAS UTILIZATION PROJECT. THEY CONCEDE THAT OTHERS
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WILL RESIST GIVING KNPC SO MUCH DOMINANCE OVER PETROLEUM INDUSTRY, BUT COMPANY OFFICIALS ARGUE THAT MINISTRY OF OIL WILL RETAIN POLICY MAKING FUNCTIONS (WHATEVER THAT MEANS). ONLY KNPC, COMPANY OFFICIALS ARGUE, AMONG KUWAITI ORGANIZATIONS HAS EXPERTISE AND EXPERIENCE IN INTERNATIONAL PETROLEUM MARKETING. KNPC ALREADY EXISTS AND CAN BE EXPANDED MORE EASILY THAN CREATING WHOLE NEW INSTITUTIONS GIVEN LACK OF SKILLED MANAGEMENT IN KUWAIT.

10. COMMENT: NOT YET CERTAIN THAT KNPC WILL GAIN AS MUCH POWER AND RESPONSIBILITY AS SOME COMPANY OFFICIALS SEEM TO HOPE. NEVERTHELESS, THERE IS SOME LOGIC TO COMPANY BEING SELECTED TO HANDLE CRUDE MARKETING, LPG SALES, ETC. AND MINISTER OF OIL KAZEMI HAS INDICATED PUBLICLY THAT COMPANY WILL PLAY MAJOR ROLE. NOW THAT IT COMPLETELY OWNED BY GOK SOME FORMER PROBLEMS ASSOCIATED WITH GIVING COMPANY LARGER ROLE HAVE DISAPPEARED. HOWEVER, EVEN IF IT MERELY IMPLEMENTS PROJECTS DESCRIBED ABOVE AND EXPANDS MARKETING AND OTHER FOREIGN ACTIVITIES AS SEEMS AT THIS STAGE ALMOST CERTAIN TO HAPPEN, IT CLEAR THAT KNPC AS AN OIL COMPANY WILL BECOME A LARGER, MORE DIVERSIFIED AND MORE IMPORTANT ORGANIZATION IN THE NEXT FEW YEARS THAN IT HAS UP TO NOW.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INDUSTRIAL DEVELOPMENT, PETROLEUM INDUSTRY, PETROLEUM REFINING
Control Number: n/a
Copy: SINGLE
Draft Date: 17 NOV 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: buchandr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975KUWAIT04794
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750400-0715
From: KUWAIT
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751137/aaaabgti.tel
Line Count: 272
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 KUWAIT 4585, 75 KUWAIT 3592
Review Action: RELEASED, APPROVED
Review Authority: buchandr
Review Comment: n/a
Review Content Flags:
Review Date: 28 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <28 MAY 2003 by ElyME>; APPROVED <20 OCT 2003 by buchandr>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: KUWAIT NATIONAL PETROLEUM COMPANY
TAGS: ENRG, EIND, EWWT, KU, KUWAIT NATIONAL PETROLEUM COMPANY
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006